



# THE RETIREMENT SYSTEMS OF ALABAMA

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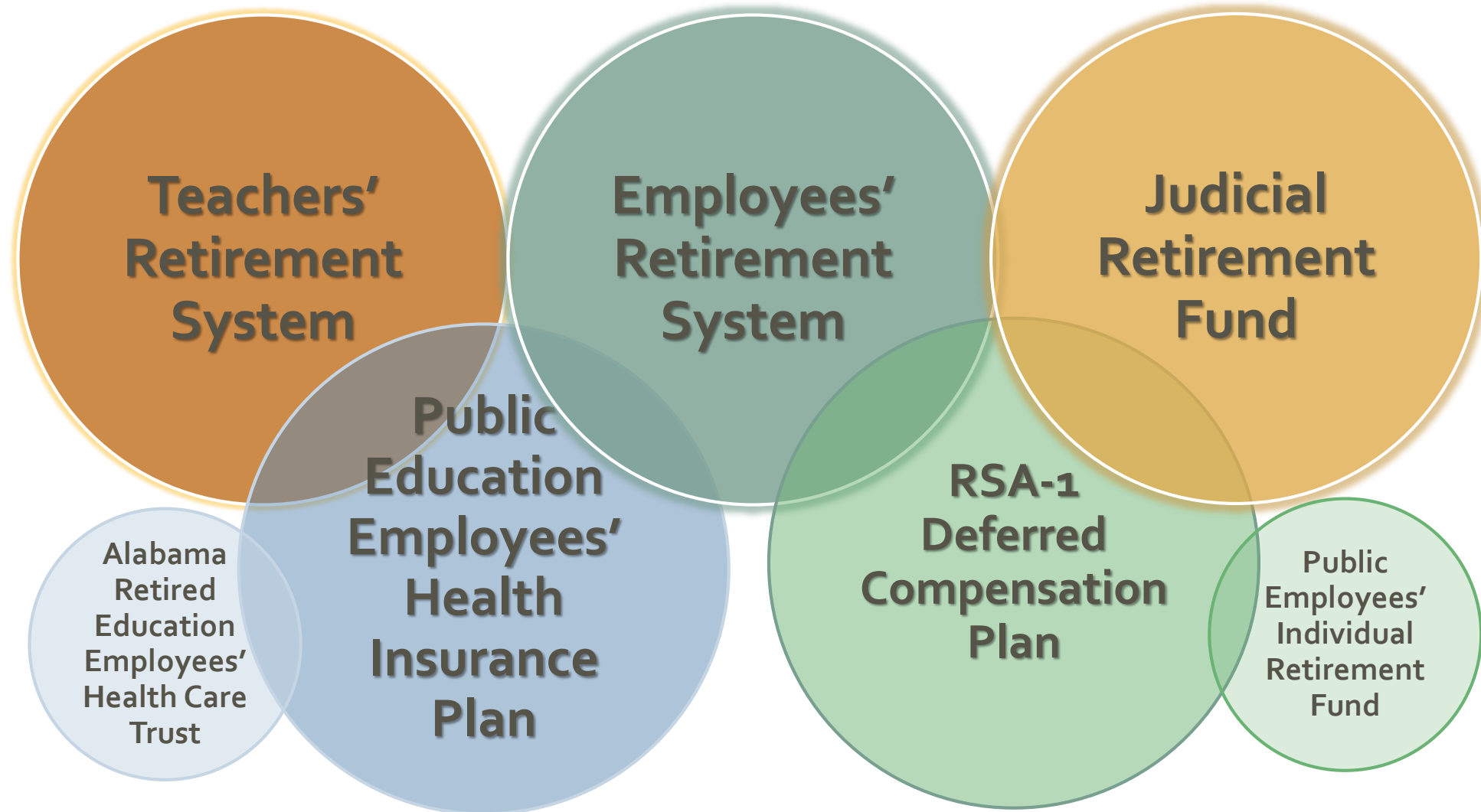
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Legislative Counsel

*AASBO Presentation*

*September 20, 2023*

# Programs Administered by RSA





# Participating Employers

*as of 9/30/22 ACFR*

## TRS

13 Universities

25 Post-  
Secondary

139 Boards of  
Education

40 State  
Agencies/Other

## ERS State

State of  
Alabama

## ERS Local

305 Cities

66 Counties

514 Other Public  
Entities

## JRF

67 Counties  
(Probate Judges,  
Circuit Clerks,  
and District  
Attorneys)

AOC (Justices  
and Judges)

# TRS BENEFITS





# TRS Members and Benefits – 10 Year History

	Active Members	Active Payroll	Retired Members	Retiree Payroll
2013	133,919	\$6,065,042,345	81,745	\$1,767,433,849
2014	135,230	\$6,214,949,700	85,209	\$1,865,549,629
2015	135,986	\$6,297,938,621	88,633	\$1,964,212,008
2016	136,731	\$6,430,999,445	91,574	\$2,053,762,261
2017	136,941	\$6,698,834,819	93,850	\$2,118,982,451
2018	137,161	\$6,756,474,151	96,231	\$2,191,704,758
2019	136,325	\$7,193,832,116	98,539	\$2,266,860,064
2020	132,707	\$7,019,258,383	100,866	\$2,350,717,232
2021	134,034	\$7,221,790,242	103,071	\$2,438,228,771
2022	135,783	\$7,982,339,732	105,549	\$2,527,829,084



# TRS Tier I and Tier II Comparison

## as of completion of the 2023 Regular Session

	Tier I	Tier II
<b>Date of Employment</b>	Prior to January 1, 2013	On or after January 1, 2013
<b>Member Contribution Rate</b>	<ul style="list-style-type: none"><li>• 7.5% for Regular Employees</li><li>• 8.5% for FLC</li></ul>	<ul style="list-style-type: none"><li>• 6.2% for Regular Employees</li><li>• 7.2% for FLC</li></ul>
<b>Retirement Eligibility</b>	<ul style="list-style-type: none"><li>• 25 years of service at any age</li><li>• At least 10 years of service at age 60 (age 56 for FLC)</li></ul>	<ul style="list-style-type: none"><li>• 30 years of service with an early retirement penalty</li><li>• At least 10 years of service at age 62 (age 56 for FLC)</li></ul>
<b>Retirement Factor</b>	<ul style="list-style-type: none"><li>• 2.0125%</li></ul>	<ul style="list-style-type: none"><li>• 1.650%</li></ul>
<b>Disability Retirement</b>	No Change	New disability standard

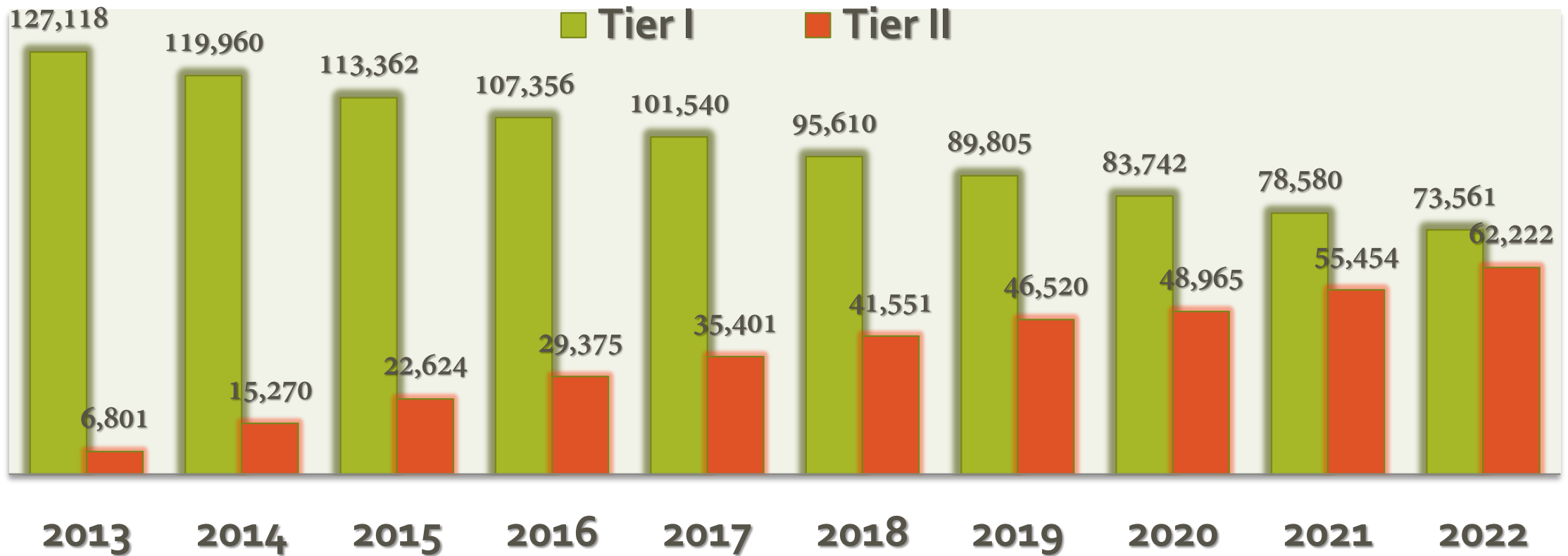


# TRS Tier I and Tier II Comparison

	Tier I	Tier II
<b>Average Final Salary</b>	Average of the highest three years of the last ten years	Average of the highest five years of the last ten years
<b>Benefit Cap</b>	None	80% of Average Final Salary <i>(Approx. 48 yrs &amp; 6 mos to get to cap)</i>
<b>Retirement Contributions on Overtime Pay</b>	Earnable Compensation cannot exceed 120% of base pay	Earnable Compensation cannot exceed 125% of base pay
<b>Sick Leave Conversion</b>	Yes	Yes
<b>FLC Bonus Year/State Police Bonus</b>	Yes	No



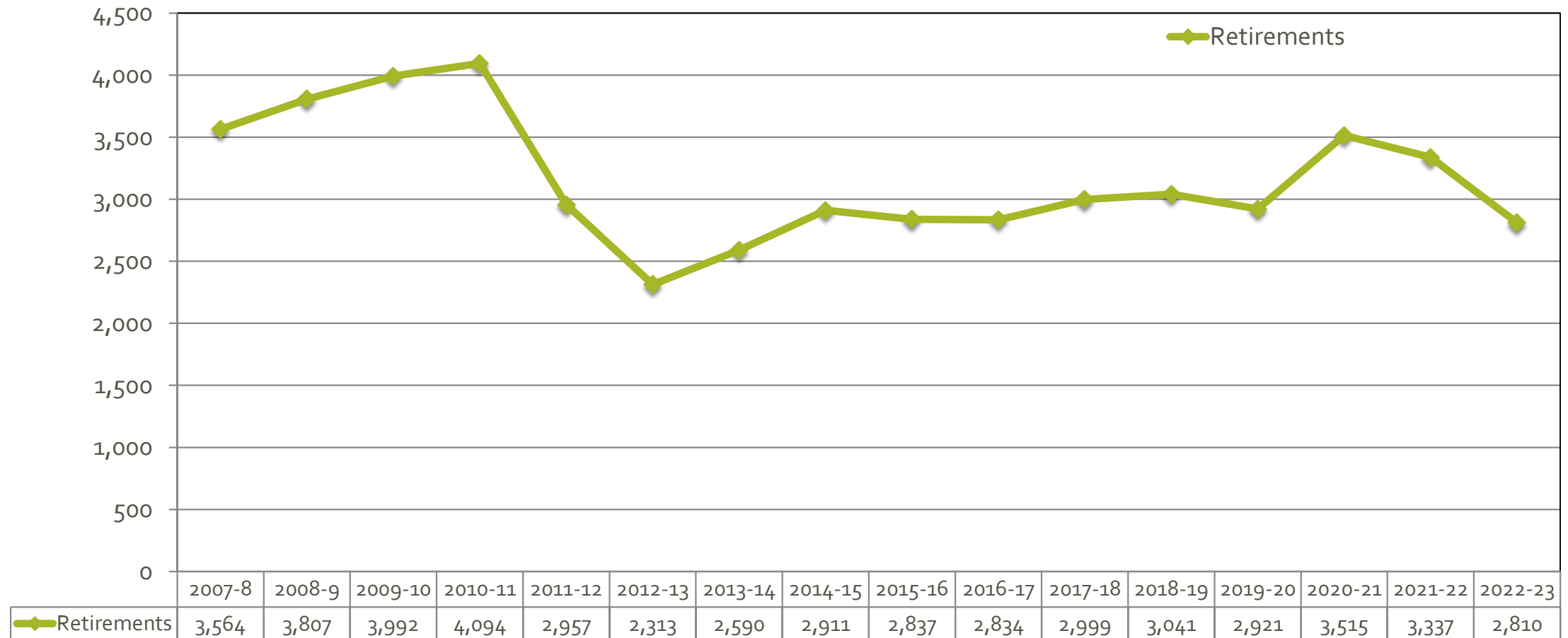
# TRS Active Members by Tier – 10 Year History







# Historical Rates of Retirement – TRS K12 Members



# TRS FUNDING





# Funding RSA's Pension Plans

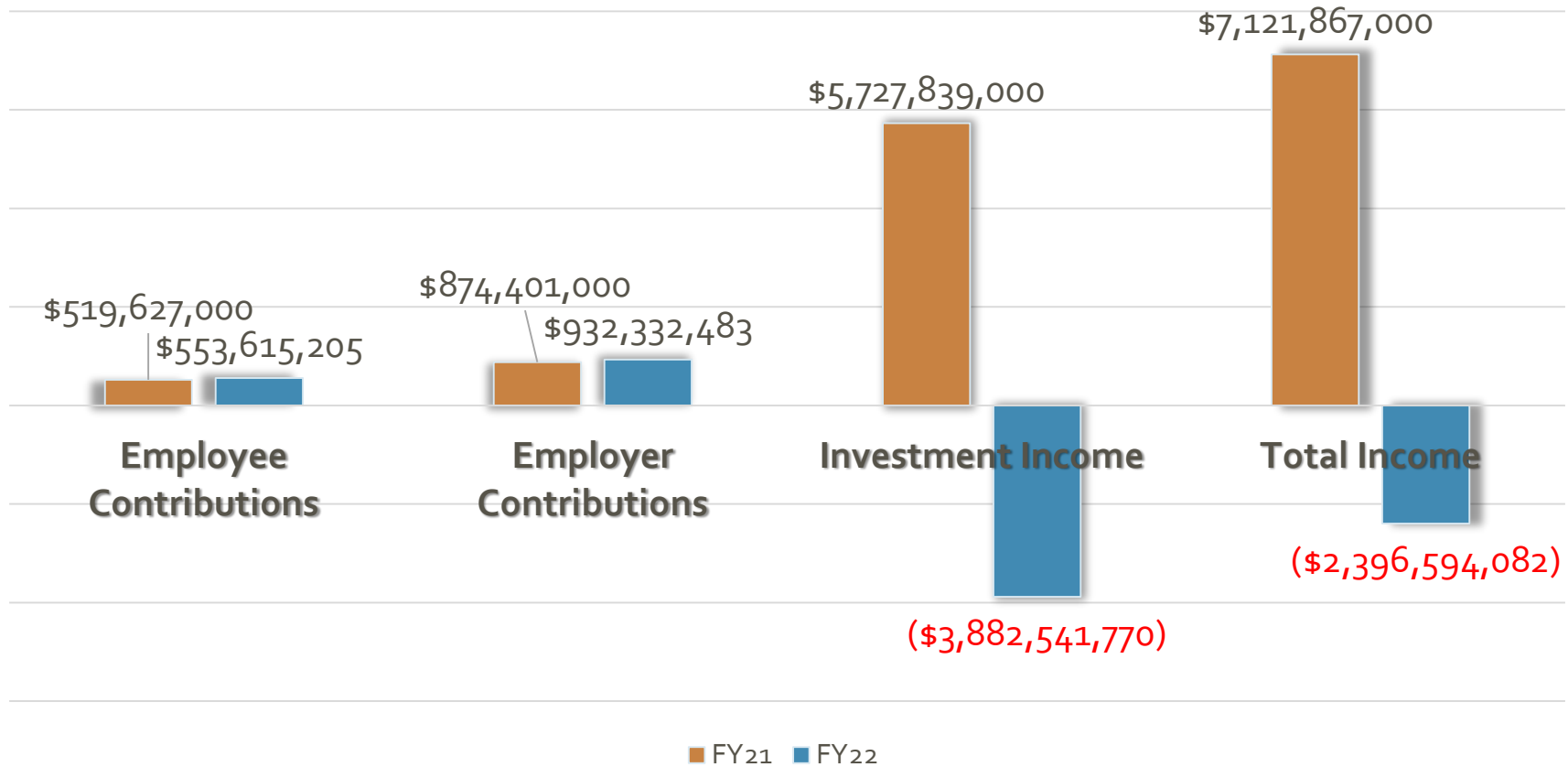
- An RSA member's retirement benefit is funded from a combination of contributions by:
  - **the member,**
  - by **the member's employer,**
  - and from **investment earnings** on those contributions.
- The benefits are pre-funded and monies from contributions and investments are held in trust by RSA to be used solely for retirement benefits as required by Alabama's Constitution.





# TRS Income Sources:

## FY21 and FY22 Comparison



\*This includes contributions from all sources for TRS and excludes transfers from ERS and internal service funds.



# RSA Income Sources:

## FY73-FY22

Employee Contributions:

\$18.0B

Employer Contributions:

\$29.8B

Investment Income:

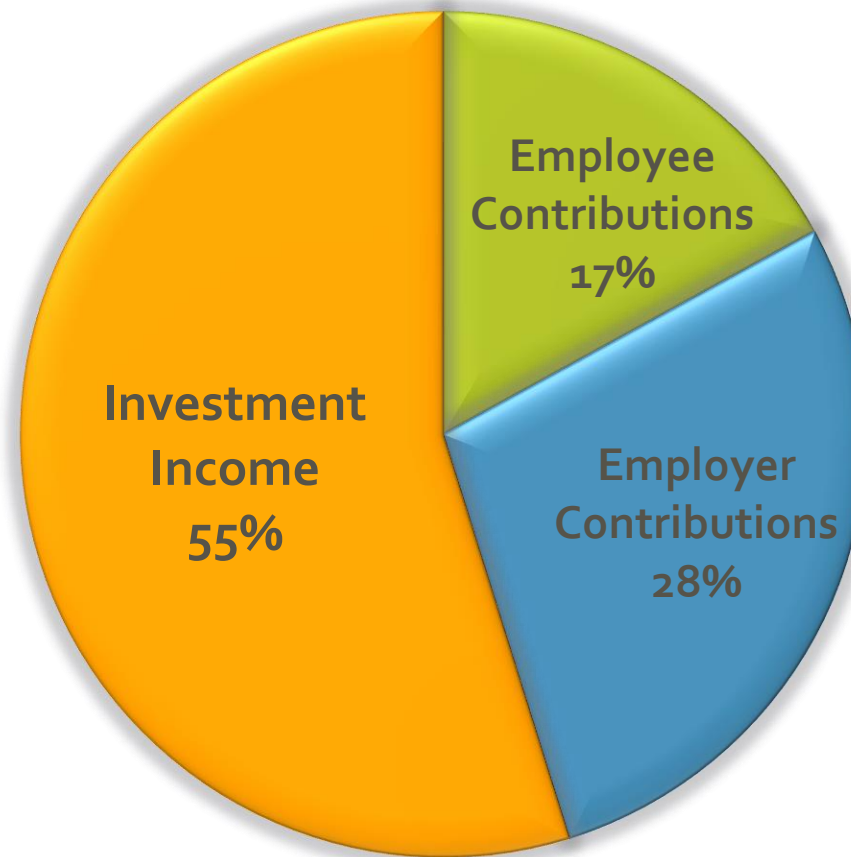
\$58.0B

**Total Income:**

**\$105.8B**

*Benefits Paid:*

*\$65.7B*



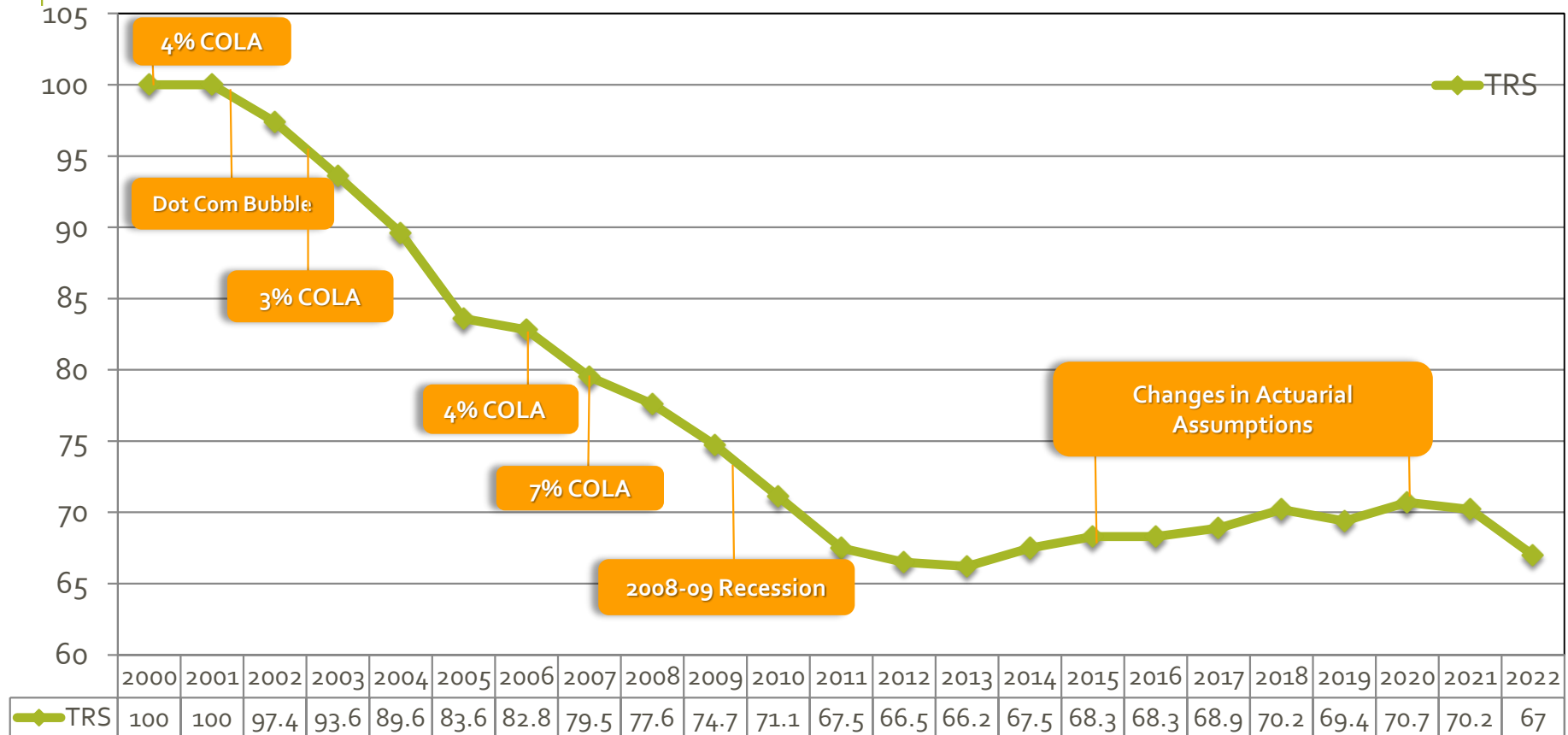


# Unfunded Liability

- The unfunded liability is the difference between a pension's liabilities and the amount of assets it holds.
- RSA's actuaries calculate the amount of the unfunded liability (also referred to as the unfunded actuarial accrued liability, or "UAAL").
  - RSA's liabilities are the projected benefits payable to **retired and active members**, discounted to the present value.
  - RSA's assets are determined using a five-year asset-smoothing method as required by statute.
- The comparison of these assets to liabilities is represented as a percentage and called the funded ratio.



# TRS's Funded Ratio 2000-2022



\* RSA's actuaries estimate that the four unfunded retiree COLAs, as plotted above, added \$2.2B to RSA's unfunded liability.



# Employer Contribution Rate:

## Actuarial Valuation

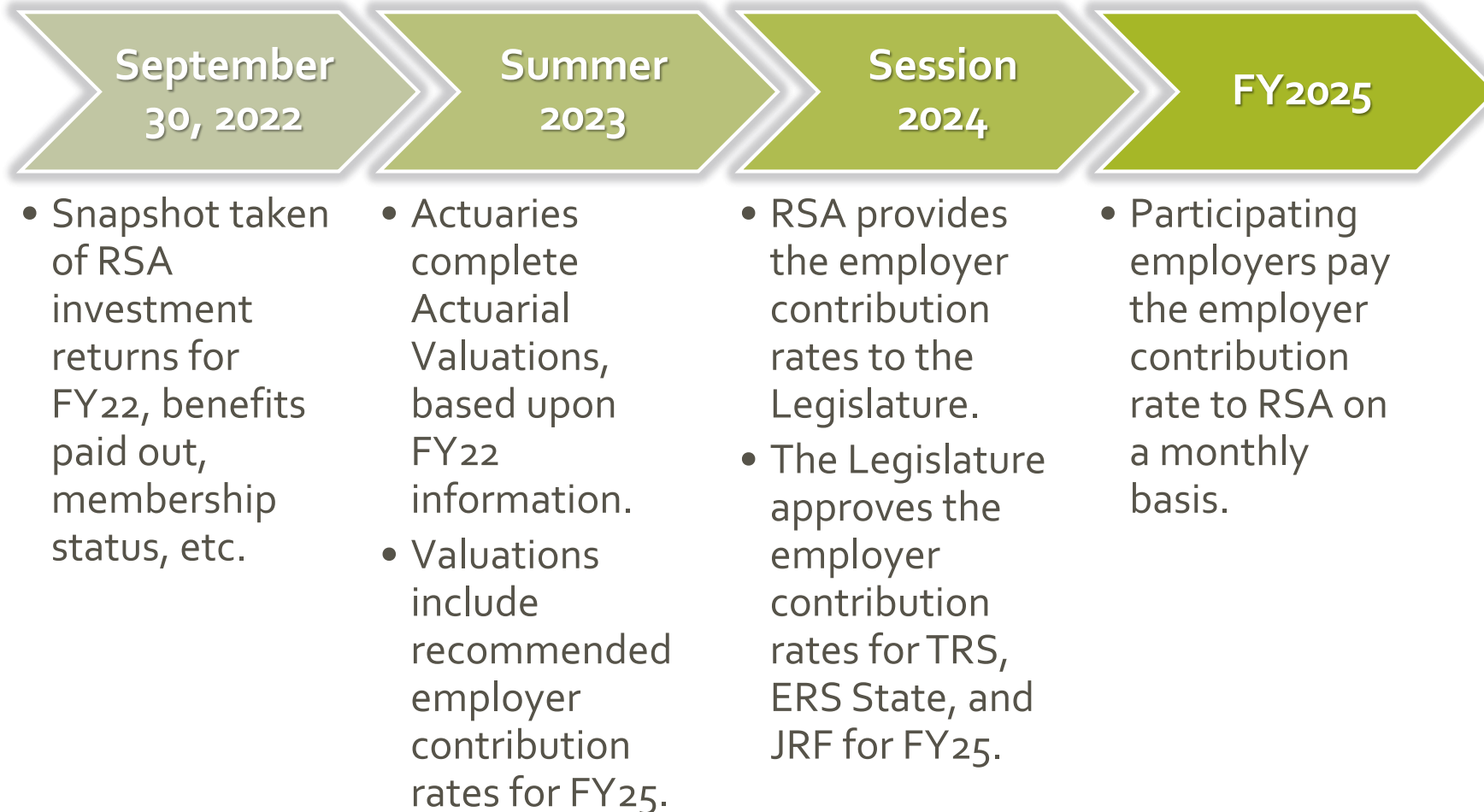
- The actuaries produce an annual valuation of the assets and liabilities of RSA based upon the actuarial assumptions and methods set by the Boards and required by actuarial standards of practice.
- Based upon this annual valuation, the actuaries determine the amount needed to fund the normal cost of benefits accrued during that year and the amount needed to pay the unfunded liability over the applicable amortization period.







# Employer Contribution Rate: Timeline





# Employer Contribution Rate: Set by Actuaries

- The employer contribution rate is set by RSA's actuaries in the actuarial valuation as a percentage of payroll.
- The employer contribution rate is calculated using the valuation from 3 fiscal years prior.
  - For example, the FY25 rate is based upon the FY22 investment returns.





# Employer Contribution Rate:

## Funding the Employer Contribution

- The Legislature approves the rate for TRS, but does not appropriate money directly to RSA.
- By statute, participating employers must pay the employer contribution from the same source of funds used to pay salaries.
- Not all funds used to pay the employer contribution rate come from the Education Trust Fund. Some participating employers have other sources of funding that are used to pay the rate, such as local or federal monies.





# TRS Employer Contribution Rates

FY22-FY25

	FY22	FY23	FY24	FY25
Tier 1	12.43%	12.59%	12.59%	13.57%
Tier 2	11.32%	11.44%	11.57%	12.60%
Est. Total Employer Cost	\$924.6M	\$973.5M	\$979.0M	n/a
Est. Amt. from ETF*	\$544.9M	\$573.7M	\$577.0M	n/a

\*Based upon estimates from the EBO using FY16 data, approximately 58.93% of the total employer cost comes from the ETF; the remainder is paid by TRS participating employers from other funds (9.59% Federal, 20.95% Tuition, 0.64% Non-Government, and 9.88% Local).



**PEEHIP**

# **PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE PLAN**



# The Public Education Employees' Health Insurance Plan

**PEEHIP** was created in 1983 to provide health insurance benefits to active and retired public education employees.

**PEEHIP** offers three Hospital/Medical plans, four Optional Coverage plans, one Supplemental plan, and two Flexible Spending Accounts.

By statute, **PEEHIP** is governed by the same board as TRS.

**PEEHIP** has over 300,000 covered lives including actives, retirees, and dependents under its Hospital/Medical plans.





# PEEHIP Funding

**PEEHIP** is funded primarily by employer contributions and member premiums, copays, and deductibles.

The employer contribution rate for **PEEHIP** is set by the Legislature annually.

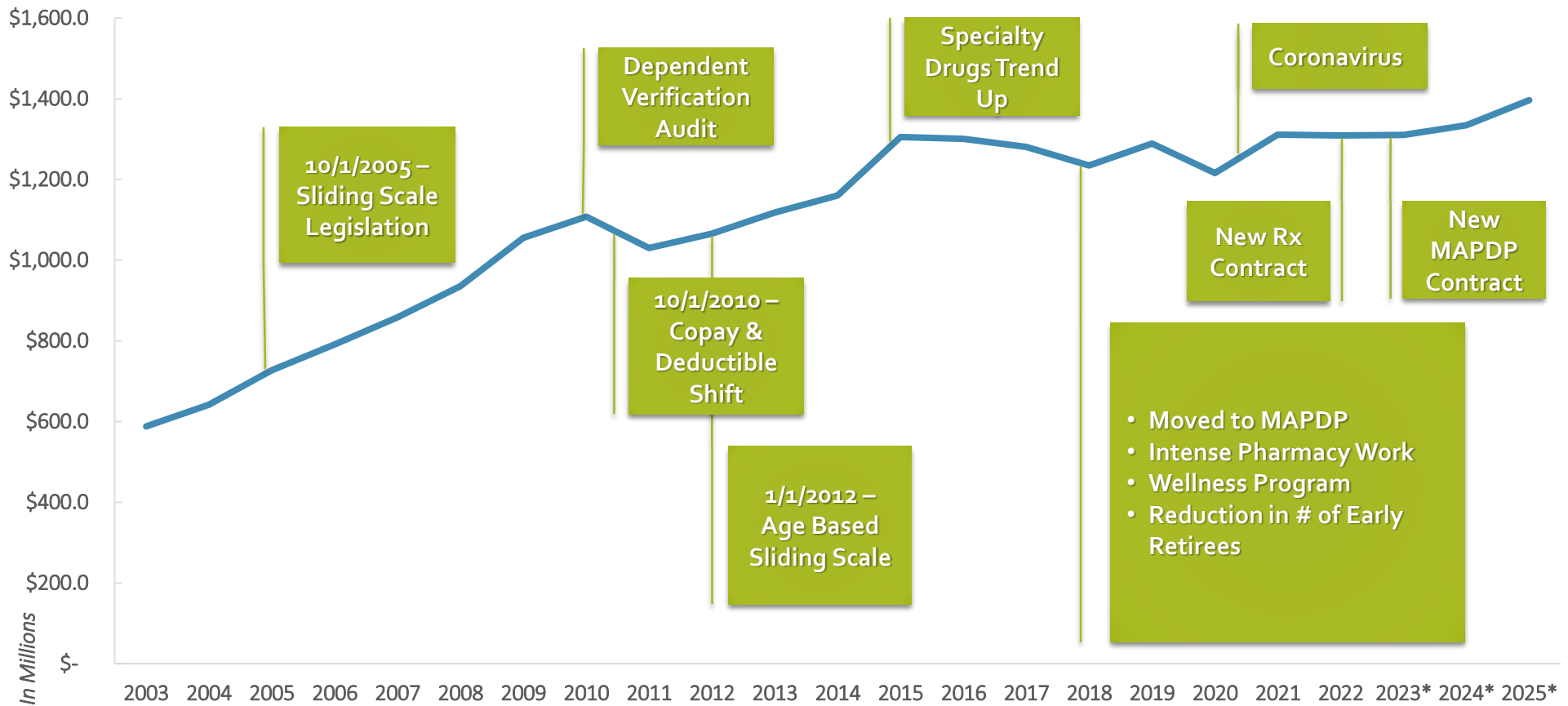
The rate is set at a flat amount per month to be paid by participating employers for every active employee that is eligible to participate in **PEEHIP**.

The employer contribution rate has been level set at \$800 per active per month since 2017.

**PEEHIP** is requesting level funding for FY25.



# PEEHIP's Medical and Pharmaceutical Costs 2003-2025



\*Projected costs.

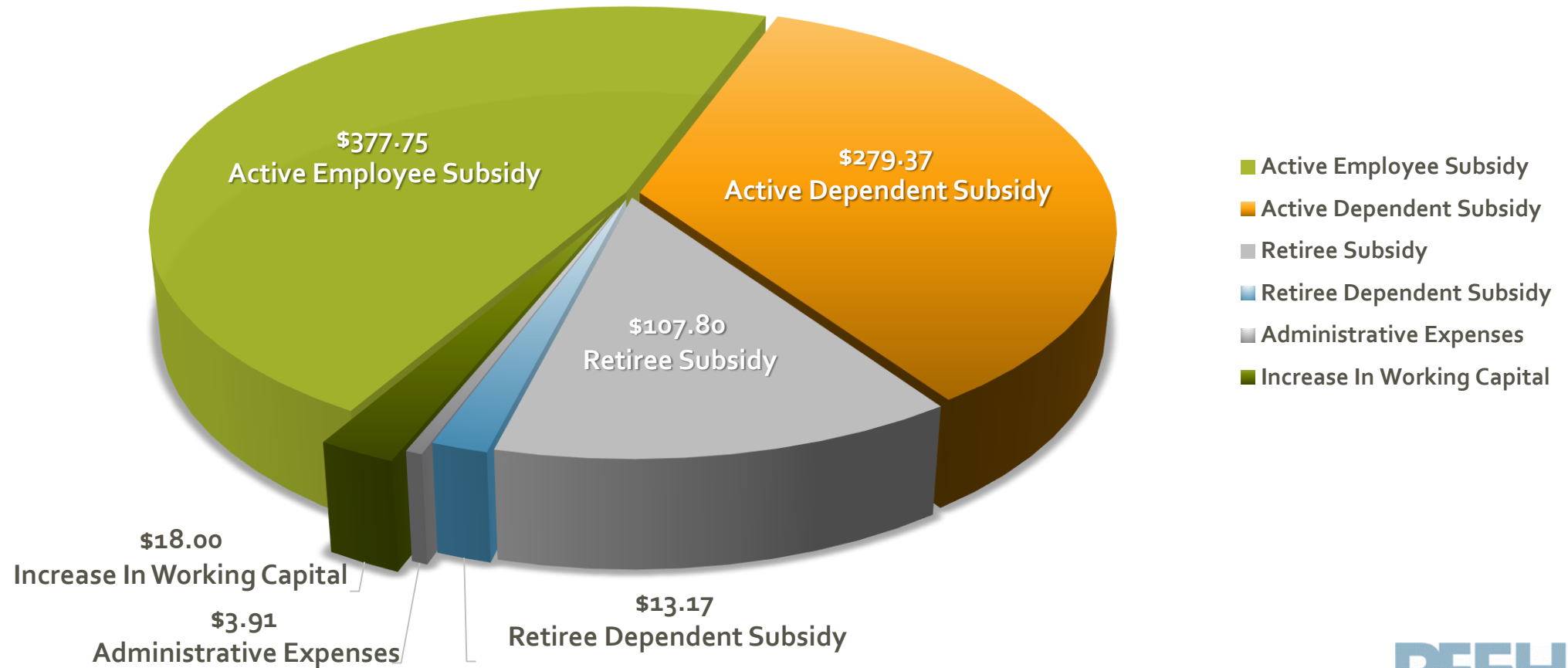
\*\*The annual growth rate of medical and pharmaceutical costs from 2003 to 2025 is 4.0%.





# PEEHIP \$800 Per Active Per Month

## Usage for FY22





# PEEHIP Employer Contribution Rates

## FY22-FY25

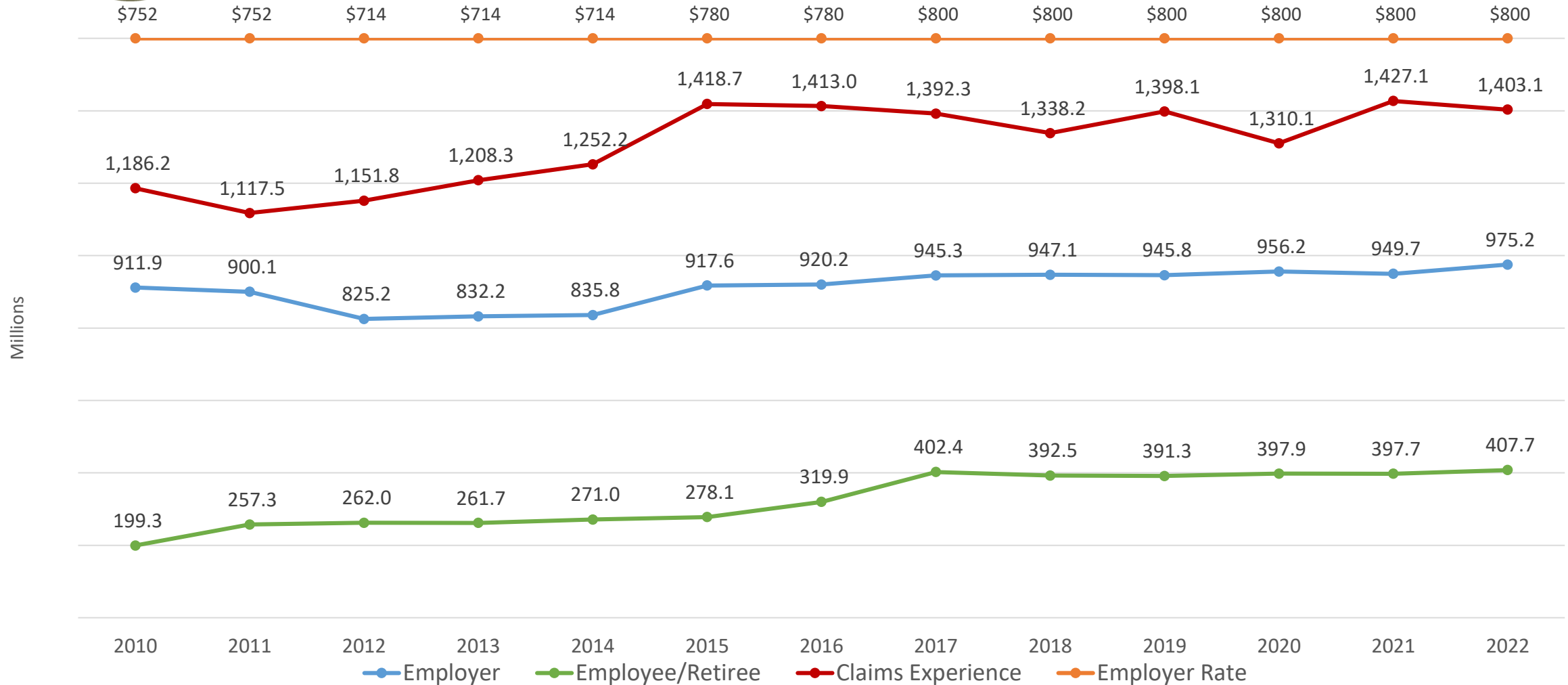
	FY22	FY23	FY24	FY25
Per Active Member Per Month	\$800	\$800	\$800	\$800
Total Employer Cost	\$975.2M	\$967.2M	\$967.2M**	n/a
Est. Amt. from ETF*	\$695.0M	\$689.3M	\$689.3M	n/a

\*Based upon estimates from the EBO using FY16 data, approximately 71.27% of total employer cost comes from the ETF; the remainder is paid by PEEHIP participating employers from other funds (12.64% Federal, 6.92% Tuition, 0.77% Non-Government, and 8.40% Local).

\*\*The estimated cost to universities for retiree healthcare coverage (\$35.0M) is not included in this amount.



# PEEHIP Financial Trends 2010-2022



# RSA-1 DEFERRED COMPENSATION PLAN





# RSA-1: A Deferred Compensation Plan

**RSA-1** is an Internal Revenue Code Section 457 deferred compensation plan for all public employees.

No employer contributions are made.

Per Ala. Code § 36-27A-7, no administrative fees are charged to members. Instead, the administrative costs are paid from the expense funds of TRS and ERS.

As of 6/30/2023, **RSA-1** held \$2.5B in fair market value assets.





# QUESTIONS?

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